TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 440 - HB 470

March 28, 2011

SUMMARY OF BILL: Effective January 1, 2012, increases the retirement allowances paid from the Tennessee Consolidated Retirement System (TCRS) to each retired teacher, wildlife officer, state police officer, firefighter, police officer, and general employee. Increased retirement allowances range from 0.3 percent to 10 percent based on years of service. Participation by local governments is optional.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - $1,165,200

Increase Federal Expenditures - $137,400

Increase Local Expenditures - $512,100*

Other Fiscal Impact - The total additional lump sum pension liability to the Tennessee Consolidated Retirement System is estimated to be $7,979,900.

Assumptions:

- TCRS provides retirement benefits for retired state employees, retired teachers, and retired local government employees.
- Based on information provided by TCRS, and relative to state employees and teachers, this bill will increase the lump sum pension liability of TCRS by approximately $7,878,000 ($2,597,900 relative to state employees and $5,280,100 relative to teachers).
- TCRS typically utilizes a 20-year horizon, pursuant to Tenn. Code Ann. § 3-9-103(b), and a 7.5 percent interest rate, pursuant to Tenn. Code Ann. § 8-34-505, when estimating annual amortized payments of pension benefits. The estimated annual amortized payment derived from these assumptions is used when TCRS cannot reasonably determine the specific members impacted by proposed legislation.
- According to TCRS, staff was able to determine the specific state and teacher members that will be impacted by this legislation. As a result, a more accurate estimate for the annual amortized payment of pension benefits can be obtained. TCRS indicates that the annual amortized payment of pension benefits will be approximately $549,500 relative to state members and approximately $1,255,200 relative to teacher members (the total

increase in the annual amortized payment of pension benefits will be approximately $1,804,700).

- Retirement benefits for retired state employees are funded 75 percent with state funds and 25 percent with federal funds. Therefore, a recurring increase in state expenditures of $412,125 ($549,500 x 75%); and a recurring increase in federal expenditures of $137,375 ($549,500 x 25%).
- Retirement benefits for retired teachers are funded 60 percent with state funds and 40 percent with local government funds. Therefore, a recurring increase in state expenditures of $753,120 ($1,255,200 x 60%); and a recurring increase in local government expenditures of $502,080 ($1,255,200 x 40%).
- Based on information provided by TCRS, if all local government entities authorize this bill, the total lump sum pension liability will increase by an additional $1,019,400.
- Ten percent of local governments authorize this bill. Therefore, the total lump sum pension liability will increase by approximately $101,940 ($1,019,400 x 10%).
- TCRS was not able to determine the specific local government members for this legislation. Assuming a 20-year horizon, a 7.5 percent interest rate, and an increased lump sum pension liability of $101,940 relative to local government employees, the annual amortized payment of pension benefits from TCRS will increase by approximately $10,000 per year.
- Retirement benefits for local government employees are funded 100 percent with local government contributions. Therefore, a recurring increase in local government expenditures of $10,000.
- The total recurring increase in state expenditures will be $1,165,245 ($412,125 + $753,120).
- The total recurring increase in federal expenditures will be $137,375.
- The total recurring increase in local government expenditures will be $512,080 ($502,080 + $10,000).
- The total increase to the lump sum pension liability will be $7,979,940 ($7,878,000 + $101,940).

*Article II, Section 24 of the Tennessee Constitution provides that: *No law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

James W. White, Executive Director

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